

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 FEA-02 INT-08 AID-20

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 9809

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

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AMEMBASSY THE HAGUE

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SUBJ: ENERGY: ECONOMIC SITUATION AND OUTLOOK-JAPAN (UPDATE)

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REFS: A. STATE 7324; B. TOKYO 847; C. TOKYO 1273; D. TOKYO 1424

SUMMARY: JAPANESE ECONOMIC ANALYSTS, ON BASIS NOVEMBER AND DECEMBER PRODUCTION FIGURES, NOW TAKING MORE POSITIVE VIEW JAPAN'S ECONOMIC PROSPECTS. PROSPECT NOW FOR ADEQUATE LEVELS OF OUTPUT IN LIGHT DECREASING DEMAND. SOME COMMODITY PRICES HAVE BEGUN DECLINE. MITI MAKING EXCEPTIONS TO ENERGY CONTROLS, BUT PLANS NO BASIC CHANGE FOR FEBRUARY. END SUMMARY.

1. JAPANESE ECONOMIC ANALYSTS NOW BELIEVE CURRENT ECONOMIC SITUATION HAS IMPROVED IN PAST TWO WEEKS AND PROSPECTS OF PRODUCTION CUT-BACKS DUE TO OIL SHORTAGES ARE RAPIDLY FADING. (THIS IN LINE WITH PREVIOUS EMBASSY VIEW). INDUSTRIAL PRODUCTION (PROVISIONAL) IN DEC HELD UP MUCH BETTER THAN PREVIOUSLY ANTICIPATED AND NOV FIGURE WAS REVISED UP BY ALMOST ONE PERCENT FROM PREVIOUS PROVISIONAL FIGURE. DEC PRODUCTION OF 133.6 (1970 EUATL 100) WAS DOWN ONLY TWO PERCENT FROM 136.3 IN NOV IN CONTRAST TO A FIVE PERCENT DIP ANTICIPATED TWO WEEKS AGO BY SENIOR BOJ OFFICIAL (TOKYO 837, PARA 6). FOR THE FOURTH QUARTER, AS A WHOLE, PRODUCTION AVERAGED 134.9 OR 3.2 PERCENT HIGHER THAN THIRD QUARTER LEVEL. GAIN IS ALMOST AS BIG AS THE 3.5 PERCENT INCREASE ACHIEVED FROM FIRST TO SECOND QUARTER 1973, BEFORE ECONOMY HAD REACHED CAPACITY LIMITS. THUS, DESPITE EARLIER FEARS OF ECONOMIC DISRUPTION DUE TO OIL SHORTAGES, PRODUCTION HAS CONTINUED AT VERY HIGH LEVELS. THIS UNEXPECTED DEVELOPMENT IS REVERSING PREVIOUS EXPECTATIONS OF SHORTAGES.

2. THE PROSPECT IS NOW NOT ADEQUATE LEVELS OF OUTPUT IN FACE OF SLACKENING DOMESTIC DEMAND. NEW MACHINERY ORDERS DROPPED SHARPLY IN DEC AND IN FIRST QUARTER OF 1974 MOST SPECULATIVE PURCHASING OF INVESTMENT GOODS, WHICH BEGAN IN THE EARLY PHASES OF THE OIL CRISES, EXPECTED TO DISAPPEAR. THERE ARE SIGNS THAT INVENTORY BUILDING SPECULATION MAY HAVE REACHED ITS PEAK AND THAT THERE WILL BE A MORE NORMAL FLOW OF GOODS THROUGH DISTRIBUTION CHANNELS TO FINAL USERS. THESE FACTORS SUGGEST A SHARP TURN-ABOUT IN BUSINESS SENTIMENT.

3. IN PAST TWO WEEKS PRICES ON JAPANESE COMMODITY MARKETS LIMITED OFFICIAL USE

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BEGAN TO DECLINE. PRICES OF STEEL PRODUCTS, LUMBER AND TEXTILES DROPPED 15-20 PERCENT AND PRICES OF CHEMICALS AND PAPER ALSO EASED. WHILE PACE OF INFLATION REMAINS STRONG, BUSINESS WILL FIND IT INCREASINGLY MORE DIFFICULT TO RAISE PRICES OF FINISHED GOODS, ESPECIALLY IF SUPPLIES ARE AS AMPLE AS NOW APPEARS LIKELY.

4. GOVERNMENT'S STRATEGY OF DEFLATING THE ECONOMY IS

BEGINNING TO SHOW SOME INITIAL SIGNS OF SUCCESS. THIS MAY BE A FACTOR IN RECENT STRENGTH OF YEN IN EXCHANGE MARKET. THERE IS EVEN SOME THOUGHT BEING GIVEN TO THE POSSIBILITY OF QTE OVERKILL UNQTE AND SOME RECOGNITION THAT PRESENT ECONOMIC STRATEGY MAY HAVE TO BE EASED LTER THIS YEAR.

5. MITI, WHICH SHIFTED ON FEB 1 FROM ADMINISTRATIVE GUIDANCE TO LEGISLATIVE CONTROLS ON ENERGY USE, NOW ALLOWING SOME EXCEPTIONS TO THOSE CONTROLS FOR PRODUCERS OF MATERIALS IN SHORT SUPPLY. MITI HAS SAID, HOWEVER, THAT IT PLANS NO GENERAL RELAXATION OF OIL AND ELECTRICAL CONSUMPTION CONTROLS DURING FEBRUARY. DETAILS BEING REPORTED SEPTEL. SHOESMITH

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